Tax News

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Postwar tax plans are being discussed by various groups. Of the plans advanced, the one most widely commented on is, "A Postwar Federal Tax Plan for High Employment," proposed by the Research Committee of the Committee for Economic Development .

The Committee for Economic Development is a nation-wide organization whose purpose is to develop a postwar world in which private business and free enterprise may be encouraged to the greatest possible degree for full production and high employment. Studies are being made of natural resources, manufacturing and processing facilities, new products, new markets, distribution, employment, and the laws affecting these factors. The Postwar Tax Plan was authorized under a goup of research studies under the head of "Taxation and Business—Studies of incentives for business enterprise and the impact of taxation on these incentives." Harold Groves, Professor of Economics of the University of Wisconsin, headed the group to study postwar federal tax revision. "A Postwar Federal Tax Plan for High Employment" is the result of the research of Professor Groves and his committee. A copy of the plan, a book of forty-eight pages may be obtained from your local office of the Committee for Economic Development.

The Plan is presented briefly here without editorial comment. Accountants will be concerned with any tax revision that may be made. Practicing tax accountants should assume personal responsibility for acquainting themselves with proposed plans for tax revision, as one or more such plans will find the way to House Ways and Means Committee to be incorporated in a revenue act. Objectionable plans should have our opposition expressed to our Congressmen and Senators, and constructive legislation should merit our endorsement in the same manner.

An outline of "A POSTWAR FEDERAL TAX PLAN FOR HIGH EMPLOYMENT" follows:

I. *Taxes can be reduced, but will be high as compared to peacetime level.*

Though every economy in expenditures may be used, federal taxation will remain at a level that would not have been thought possible in pre-war years.

Total federal expenditures may be estimated between sixteen billion and eighteen billion dollars per year after the war. This figure will not include Social Security payments, or debt retirement. The lower figure is 2½ times—the higher almost 3 times—the highest revenue raised in a single year before the war.

Reasons for high expenditures after the war:

1. Interest on huge federal indebtedness.
2. Larger military forces—Navy, Army and Airforce.
3. Veteran compensation and benefits.
4. New international obligations to maintain the peace.
5. Added costs for Social Security Program.
6. High cost of government, which will be as costly as before the war.

To raise money necessary to meet such expenditures, the average cost per family of four in the postwar period will be $512.

Compare this figure with the average for the same family group in other years: 1929 — $132, 1933 — $68, and 1940 — $156.

II. *The Major Objectives of the Plan*

It is recommended that to meet this tax burden the overhaul of our tax system is necessary. The purpose which must be kept in mind—to lessen the depressing effect of taxation upon production and employment. The method of taxation chosen may mean jobs or no jobs for millions.

The three broad objectives to be kept in mind in any tax plan are:

1. The tax system should restrict expansion of production and employment as little as possible. New business should be encouraged, and there should be the incentive for every man to make his business grow. To do so will create more jobs. The personal income tax should not discourage exceptional abilities, thrift, and ambition. Taxes should leave as much money in the hands of consumers as possible so that by greater buying power, the market for goods and labor will be expanded.
2. Taxes should be levied equitably on all persons in like circumstances. All persons except those on subsistance levels should be contributing directly

to the support of government.

3. Taxes must be adequate. Monies collected in taxes should be administered economically, and sufficient money should be collected in taxes to meet expenditures. If current expenditures are met with current income, confidence in the safety of investments in federal investments will be maintained.

Postwar employment must be the prime consideration. It is estimated that seven to ten million more jobs are necessary in private business than were in existence in 1940, and new postwar jobs must be created speedily. Employment and the taxes are closely related. Present tax laws would be repressive to employment.

III. *General Outline of the Plan*

For the proposed tax program, the following five conclusions by the Committee are offered:

1. Graduated personal income tax is to provide at least half total federal revenue. New rates to provide relief from present laws to all taxpayers.
2. Excise and sales taxes should be eliminated as nearly as possible.
3. Taxes on business operations should be reduced.
4. Inequities of present tax structure should be removed.
5. Taxes should be heavy enough to meet current expenditures and stop increase in federal debt.

IV. *Reasons for Personal Income Tax Proposals.*

The Committee offers three reasons why not less than one-half total federal income should come from personal income taxes:

1. Personal income taxes are less of a check on production and employment than are corporation taxes, excise tax and sales taxes. Tax rates on upper income groups should be low enough to encourage risk taking. Rates in the lower brackets should not be so high that spending would be curtailed.
2. The personal income tax is the only tax that can be levied according to taxpayers' ability to pay.
3. Taxpayer should pay his share of taxes directly and not indirectly in sales and excise taxes, corporation or transaction taxes. The hidden taxes do not lighten the tax burden, because all such taxes are ultimately paid by the individual.
4. Under the proposed plan, forty million taxpayers would be paying directly to the government. The premise is that taxpayers would insist on economy and efficiency in government.

V. *Specific Recommendations.*

1. Taxes on Individual Incomes.
   - A. Personal Exemptions should be raised by eliminating 3% Normal Tax, which allows no credit for dependents. Surtax exemption of $500 for each taxpayer and dependent should be retained.
   - B. The present combined tax of 23% for the lowest bracket of taxable income should be replaced by a single standard tax of 16 to 20 percent, depending on revenue requirements.
   - C. Tax rates on incomes above lowest bracket should be substantially reduced throughout the range. By eliminating the 3% Normal Tax, the national income exempted from taxation would be increased by about twenty seven billions at present levels of national income. The taxes paid would be lessened by about two and one-half millions. Four fifths of this relief would be to families with less than $5,000 incomes.
   - D. Double taxation of dividend income should be eliminated. The taxpayer now has dividend taxed when reported as corporation income and again when received by him. If corporation income taxes were materially cut, and taxes levied on individuals only, it would encourage more people into investing capital in productive enterprise.
   - E. Discrimination against taxpayers with irregular earnings should be removed so far as possible, through equalizing tax burdens by means of some income-averaging device. Unincorporated businessmen, wage earners, farmers and professional persons would derive greatest benefit from this change.
   - F. Income from all future security issues by state and local govern-

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What's New in Reading

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Corporate Dividends—by Donald Kehl.
Publisher — Ronald Press — Price $7.50 — 367 pages.

A handbook in which the reader will find "Definition of Fund Available for Dividends;" "Computation of Fund Available under Balance Sheet Surplus Test;" "Computation of Fund Available under Net Profits Statutes;" "Federal Income Tax on Dividends;" in addition to other aspects of this subject, which has assumed increasing importance in each new income tax law, as well as in present and post-war plans for reconversion.

Corporation and Manufacturing Accounting—by H. A. Finney
Publisher—Prentice-Hall — Price $5.35 — 534 pages.

Written primarily for corporation executives who have had little or no formal accounting training, the accountant can find much valuable information in its twenty-eight chapters. It will be helpful in preparing data from the viewpoint of the executive who is to use them rather than from the sometimes too technical viewpoint of the trained accountant.

Corporate Executives' Compensation—by George Thomas Washington
Publisher — Ronald Press — Price $7.00 — 519 pages.

Covers various forms of compensation and their comparative merits from income tax and other angles, as applied to the corporation and to the executive.

Excess Profits Tax Relief—by Hugh C. Bickford.
Publisher—Prentice-Hall—Price $7.50.

A new book, the first chapter of which gives a "History of Excess Profits Taxes and Relief Provisions Here and Abroad." Chapters 2 and 3 are devoted to a detailed explanation of "Nature of Relief" and "Manner of Computing Relief" under Section 722, while chapters 4 and 8 cover sections 722(b) (1) to (5) inclusive. Chapter 9 covers Section 722(c), and chapter 10 "Procedure Under Code." A useful book to follow in the assembling of data to be used in applications for relief under this important section of the Internal Revenue Code.

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ments should be made fully taxable.

G. Present treatment of capital gains and losses should be retained until reductions in corporate and personal income taxes have been effected, and averaging income over a period is permitted. If and when this occurs, capital gains should be fully taxable, and full deduction of capital losses should be permitted. Under such circumstances, capital gains and losses should be recognized at transfer by gift or death.

H. There should be rigorous enforcements to prevent under-reporting at all income levels and in all occupations.

2. *Excise Taxes*

All excise taxes should be repealed with exception of those on liquor, tobacco (perhaps on gasoline, if needed), and other taxes levied on social and regulatory purposes.

3. *Taxes on Business*

A. Present corporate income taxes should be replaced by a single tax at a flat rate, the same as the proposed standard rate of 16 to 20 percent for individual incomes.

B. The excess-profits tax should be repealed.

C. The "declared-value capital stock excess-profits tax" should be repealed.

D. Present taxation of personal holding companies should be retained, as well as the existing provisions which penalize unreasonable accumulation of earnings.

E. Both corporate and non-corporate businesses should be allowed to carry forward losses from business operations to apply against subsequent earnings for a period of six years.

F. Both corporate and non-corporate businesses should be permitted greater latitude in making annual allowances for depreciation.